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أثر خصائص لجنة التدقيق في التحفظ المحاسبي:
دليل إضافي من الأردن

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الكلمات المفتاحية: خصائص لجنة التدقيق؛ التحفظ المحاسبي؛ مدخل القيمة الدفترية للسوقية؛ نسبة المستحقات الكلية لمجمل الدخل؛ سوق عمّان للأوراق المالية.

ملخص البحث. تستكشف هذه الدراسة أثر خصائص لجنة التدقيق (حجم لجنة التدقيق، الاستقلالية، النشاط، الخبرة المالية، النسبة المئوية للأسهم العادية المملوكة من قبل لجنة التدقيق) في تحسين مستوى التحفظ المحاسبي لعينة مكونة من (٥٠) شركة صناعية أردنية مدرجة في سوق عمّان للأوراق المالية خلال الفترة ٢٠٠٤-٢٠٠٩م، لتحقيق هذا الهدف تم استخدام طريقتين لقياس التحفظ المحاسبي هما: مدخل القيمة الدفترية للقيمة السوقية، ونسبة مجموع المستحقات لمجمل الأرباح. وباستخدام الانحدار المشترك، لم تجد الدراسة علاقة لخصائص لجنة التدقيق المختبرة بالتحفظ المحاسبي باستثناء الخبرة المالية لأعضاء لجنة التدقيق التي وجدنا أن لها علاقة موجبة بالتحفظ.

Appendix: Study Sample

#	CORPORATIONS	#	CORPORATIONS
1	AL JANUOB FILTERS MANUFACTURING	26	JORDAN SULPHO CHEMICALS
2	ARAB ALUMINIUM INDUSTRY /ARAL	27	JORDAN TANNING
3	ARAB CENTER FOR PHARM. & CHEMICALS	28	JORDAN WOOD INDUSTRIES (JWICO)
4	ARAB ELECTRICAL INDUSTRIES	29	MIDDL EAST PHARM. AND CHEMICAL IND.
5	ARAB ENGINEERING INDUSTRIES	30	MIDDLE EAST COMPLEX FOR ENG.,
6	ARAB PAPER CONVERTING & TRADING	31	NATIONAL ALUMINIUM INDUSTRIAL
7	ARAB POTASH	32	NATIONAL CABLE & WIRE MANUFACTURING
8	DAR AL- DAWA DEVELOPMENT & INVESTMENT	33	NATIONAL CHLORINE INDUSTRIES
9	EL-ZAY READY WEAR MANUFATURING	34	NATIONAL POULTRY
10	GENERAL INVESTMENT	35	NATIONAL STEEL INDUSTRY
11	INTERMEDIATE PETRO CHEMICALS IND.	36	NUTRI DAR
12	INTERNATIONAL TEXTILE MANUFACTURING	37	PEARL SANITARY PAPER CONVERTING
13	INTERNATIONAL TOBACCO & CIGARETTES	38	READY MIX CONCRETE AND CONSTRUCTION SUPPLIES
14	JORDAN CEMENT FACTORIES	39	THE ARAB CHEMICAL DETERGENTS INDUSTRY
15	JORDAN CERAMIC INDUSTRIES	40	THE ARAB INTERNATIONAL FOOD FACTORIES
16	JORDAN CHEMICAL INDUSTRIES	41	THE INDUSTRIAL COMMERCIAL & AGRICULTURAL
17	JORDAN DAIRY	42	THE JORDAN PIPES MANUFACTURING
18	JORDAN INDUSTRIAL RESOURCES	43	THE JORDAN WORSTED MILLS
19	JORDAN INDUSTRIES & MATCH /(JIMCO)	44	THE PUPLIC MINING
20	JORDAN NEW CABLE	45	THE UNION TOBACO & CIGARETTE INDUSTRIES
21	JORDAN PAPER & CARDBOARD FACTORIES	46	UNION CHEMICAL & VEGETABLE OIL INDUSTRIES
22	JORDAN PHOSPHATE MINES	47	UNIVERSAL CHEMICAL INDUSTRIES
23	JORDAN POULTRY PROCESSING & MARKETING	48	UNIVERSAL MODERN INDUSTRIES
24	JORDAN ROCKWOOL INDUSTRIES	49	WOOLEN INDUSRIES
25	JORDAN STEEL	50	W0RLD OPTICS INDUSTRY AND AUDIO

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Regression was used in this study. We found that there is no significant relationship between the audit committee characteristics related to accounting conservatism. However, the study found that the financial experience of audit committee was significantly associated with conservatism. This is an important finding that could benefit regulators in Jordan.

This study is limited to only one sector of the economy, the industrial sector; the result of this study may not apply to other sectors. Future research might attempt to examine whether other monitoring mechanisms can be used to test the relation between audit committee characteristics and conservatism.

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Table 4. Results of multiple regressions of study models

Variable	Label	Predicted sign	Models (N=300)	
			BTM	ATP
Independent variables: audit committee characteristics:				
Audit Committee Size	ACSize		-1.135	0.617
			(0.258)	(0.538)
Audit Committee Independence	ACIndep		-1.861	-0.898
			(0.064)	(0.371)
Number of Audit Committee Meetings	ACActivity		-0.072	0.057
			(0.943)	(0.955)
Financial Experience of Audit Committee	ACExper		2.582**	1.579
			(0.011)	(0.095)
Common Stocks Owned by Audit Committee	ACOwner		-1.725	0.489
			(0.086)	(0.625)
Control variables:				
Company Size	Size		0.157	0.406
			(0.875)	(0.686)
Financial Leverage	Leverage		0.993	-0.356
			(0.322)	(0.722)
Big 5 Jordanian Audit Firms	Big5		0.879	0.263
			(0.381)	(0.793)
Corporate Governance	CorpGov		0.234	0.413
			(0.815)	(0.680)
Auditor's Specialization in Customer's Industry	EAProf		-1.197	1.510
			(0.233)	(0.133)
F-statistic			1.199	0.754
p-value			(0.120)	(0.673)
R Square			0.113	0.042
Adjusted R Square			0.061	0.014

- OLS: *t*-test (top), *p*-value (bottom), two-tailed
- *t*-Critical: at df 39, and confidence level of 99% is 2.390 and level of 95% is 1.671 and level of 90% is 1.296
- *F*-Critical (df for denominator n-β-1 = 50-10-1 = 39) and (df for numerator =β =10 and confidence level of 99% is 2.730 and confidence level of 95% is 2.040
- * and ** denote significance at the 0.05 and 0.01 levels

the audit committee characteristics influence on accounting conservatism which can be arithmetically explained as: null hypothesis (H_0: $\beta_1=\beta_2=\beta_3=\beta_4=\beta_5=0$) against the alternative hypothesis one at least from (H_a: $\beta_i \neq 0$). We found that *F*-statistic is less in its critical value in the two models and *p*-value is more than 5%. Thus, we cannot say that the collective characteristics of audit committees affect accounting conservatism.

5. Summary and Conclusion

In this study, we investigate the impact of audit committee characteristics on conservatism. The study focuses on the combined effects of audit committee effectiveness on accounting conservatism since these monitoring mechanisms are important constraints. Data were obtained from 50 Jordanian companies listed on the Amman Stock Exchange for the period 2004-2009. We examine five characteristics of audit committees. Pooled Data

Carcello *et al.*, 2006). Our study did not find any influence for the dependence of members of the audit committee on improving level of accounting conservatism. Independent members of the audit committees in Jordanian industrial companies never contributed to the improvement of the quality of financial reports (Hamdan and Mushtaha, 2011). The independence that some members of the committee have is in form, not in execution, because there is an apparent financial or family connection with members of audit administration that appointed them. It was surprising to find that the audit committee in one of the companies consists of three brothers! For such reasons, independence of the committee never left any impact on conservatism.

Such a result agrees with that of Lin and Yang, (2006) which also did not find any influence of that independence of members, with any statistical significant, on earnings quality and financial reports. The study of (Mcmullen and Raghunandan, 1996) found that the standard of independence of members of the audit committee whether executive or non-executive mostly reduces the role of the committee, and this affects its supervisory and controlling roles.

The Blue Ribbon Committee (BRC), in its 10 recommendations submitted on the audit committee, neglected the number of meetings of that committee. This negligence was because the committee didn't find any absolute impact on the number of meetings on the companies' control or on the improvement of financial reports quality (Hamdan and Mushtaha, 2011). Many of the studies like those of Lin and Yang (2006) confirmed that there was no effect, for the number of meetings of the audit committee, on the financial reports quality.

The study of Rahman and Ali (2006) also confirmed that there was no decisive evidence to prove that there was any effect for the number of meetings of the committee on earning quality as exemplified in the reduction of illegal earnings management practices. In our study, we did not find any impact of the number of meetings of the audit committee on conservatism. Such a finding complies with the two studies of (Qaraqish, 2009; Baxter and Cotter, 2009), who did not find any impact of the number of meetings of the committee on the improvement of earnings quality.

The fourth sub-hypothesis focuses on the influence of financial experience of audit committee members on improving conservatism. In Table 4, we notice that there is a statistical significance for the "ACExper" variable only in the "BTM" model. With regard to the influence of financial experience, this study complies with many studies like those of Hamdan and Mushtaha (2011) which found that the financial experience of audit committee members had a positive influence on the quality of financial reports. The study of Saleh *et al.* (2007) found that the companies that had audit committees, whose members are distinguished for financial experience, knowledge, and professionalism, are more able to put an end to the practices of earnings management, manipulations, and deception in financial statements. The study of Mcmullen and Raghunandan (1996) also found that companies which did not encounter any problems in their financial reports most likely had audit committees with professional accounting experience more than the ones that receive conservative reports and suffer from many problems in their financial reports. The studies of (Bryan *et al.*, 2004; Qin, 2007) confirmed that the financial and professional experience the members had was positively related to the quality of financial reports. It also had a contrary connection with distorted financial reports and earnings management (Huang, 2005; Yang and Krishnan, 2005). This result goes in line with the findings of past studies which found that the financial experience of audit committee members had an impact on the improvement of earnings quality (Qaraqish, 2009; Baxter and Cotter, 2009; Xie *et al.*, 2003; Choi *et al.*, 2004).

The fifth sub-hypothesis tested the influence of the ratio of ownership of the stocks of the audit committee on accounting conservatism. The study of Hamdan and Mushtaha (2011) noticed that such ownership is negatively related to the financial reports quality and positively connected with Fraud and manipulation with financial statements, in addition to the absence of commitment to accounting standards (Martinez and Fuentes, 2007), and the illegal practices of the earnings management (Yang & Krishnan, 2005). But our study did not find any influence for the audit committee size on improving the level of accounting conservatism.

The main hypothesis tests the role of the overall characteristics of audit committee on the level of accounting conservatism. In testing this hypothesis, two models were used. Ordinary Least Squares (OLS) test was used in testing. By having a look at Table 4, we can notice that the Adjusted R^2 of the first model which tests the conservatism through the BTM ratio is bigger than the Adjusted R^2 of the second model which tests the conservatism through the ATP ratio. Such a finding shows that the first model best represents the relationship between characteristics of audit committee and accounting conservatism. When testing the main hypothesis of

Table 3. Correlations Matrix, Pearson (top) and Spearman (bottom) correlations are above diagonal; p-values are shown in parentheses

	ACSize	ACIndep	ACActivity	ACExper	ACOwner	BTM	ATP	Size	Leverage	Big5	CorpGov	EAProf
ACSize		-0.018	-0.010	-0.011	0.850	-0.066	0.000	-0.063	-0.038	-0.065	0.083	-0.250**
		(0.758)	(0.865)	(0.850)	(0.126)	(0.327)	(0.998)	(0.279)	(0.516)	(0.269)	(0.155)	(0.000)
ACIndep	-0.018		-0.063	-0.085	-0.060	-0.197**	-0.047	0.028	0.027	-0.025	-0.097	0.222**
	(0.758)		(0.281)	(0.146)	(0.307)	(0.003)	(0.483)	(0.633)	(0.642)	(0.663)	(0.095)	(0.001)
ACActivity	-0.007	-0.062		-0.139*	0.097	-0.050	-0.006	-0.030	0.127*	-0.002	-0.057	0.030
	(0.905)	(0.284)		(0.016)	(0.097)	(0.453)	(0.925)	(0.609)	(0.028)	(0.977)	(0.328)	(0.675)
ACExper	0.016	-0.097	-0.149**		0.160**	0.174**	0.123	0.120*	-0.164**	-0.101	-0.199**	-0.012
	(0.786)	(0.096)	(0.010)		(0.006)	(0.009)	(0.064)	(0.038)	(0.005)	(0.080)	(0.001)	(0.869)
ACOwner	0.019	-0.097	0.118*	0.129*		-0.084	0.059	0.148*	0.117**	0.006	-0.165**	0.236**
	(0.749)	(0.097)	(0.044)	(0.027)		(0.211)	(0.385)	(0.011)	(0.045)	(0.915)	(0.005)	(0.001)
BTM	-0.117	-0.102	-0.016	0.203**	-0.055		-0.104	0.027	0.035	0.024	0.019	-0.125
	(0.081)	(0.123)	(0.805)	(0.002)	(0.413)		(0.119)	(0.683)	(0.595)	(0.717)	(0.780)	(0.081)
ATP	0.091	0.118	-0.018	0.035	0.048	-0.173**		-0.001	-0.061	0.038	-0.001	0.108
	(0.179)	(0.075)	(0.791)	(0.604)	(0.479)	(0.009)		(0.983)	(0.362)	(0.571)	(0.984)	(0.129)
Size	-0.130*	-0.056	-0.048	0.041	0.080	-0.090	0.044		0.116*	0.190**	-0.162**	-0.160**
	(0.026)	(0.336)	(0.410)	(0.481)	(0.173)	(0.175)	(0.511)		(0.046)	(0.001)	(0.005)	(0.023)
Leverage	-0.008	0.018	0.163**	-0.194**	-0.005	0.037	0.033	0.124*		0.006	-0.132*	-0.067
	(0.897)	(0.752)	(0.005)	(0.001)	(0.927)	(0.577)	(0.622)	(0.032)		(0.915)	(0.023)	(0.340)
Big5	-0.065	-0.025	0.003	-0.118*	-0.033	0.052	0.015	0.327**	-0.019		0.126*	0.336**
	(0.269)	(0.663)	(0.953)	(0.042)	(0.576)	(0.437)	(0.820)	(0.000)	(0.743)		(0.029)	(0.000)
CorpGov	0.170**	-0.050	-0.033	-0.201**	-0.066	-0.060	-0.137*	-0.141*	-0.070	-0.002		-0.165*
	(0.004)	(0.390)	(0.569)	(0.000)	(0.260)	(0.371)	(0.040)	(0.014)	(0.225)	(0.968)		(0.019)
EAProf	-0.250**	0.222**	0.033	-0.023	0.244**	-0.016	0.061	0.027	-0.069	0.336**	-0.034	
	(0.000)	(0.001)	(0.636)	(0.750)	(0.001)	(0.824)	(0.392)	(0.697)	(0.328)	(0.000)	(0.630)	

* and ** denote significance at the 0.05 and 0.01 levels

Table 2. Descriptive statistics for 50 industrial Jordanian companies during 2004-2009

Panel A: Continuous variables

Variable	Minimum	Maximum	Mean	SD	Skewness	Kurtosis
ACSize	3.000	4.000	3.031	0.198	4.665	19.900
ACActivity	3.000	5.000	4.183	0.494	0.365	0.320
ACExper	0	1	0.434	0.260	0.394	-0.058
ACOwner	0.000	98.610	11.395	17.728	1.944	3.637
BTM	-4.470	6.540	0.964	1.017	1.715	12.479
ATP	-491.953	927.824	1.053	71.137	8.236	138.038
Size (JOD'000)*	430	1,083,134	43,650	122,732	5.501	34.771
Leverage	0.310	246.500	34.771	34.895	2.929	12.189
CorpGov	0	89.250	15.521	18.848	2.061	4.514

Panel B: Dichotomous variables

Variable	Frequency of 1's	Frequency of 0's
IndAC	213 (71%)	86 (28.7%)
Big5	197 (65.7%)	103 (34.3%)
EAprof	137 (45.7%)	66 (22%)

* 1 Jordanian Dinar (JOD) = 1.4 US Dollar

We notice that the average the audit committee owns is 11%. The maximum percentage of ownership of the company's stock was 98%. In other companies, the audit committee do not own any stocks of the delisted one. This explains why members of the audit committee are selected from those who are influential in decision making because of their owned stocks in the company. Table 2 Part B shows that 71% of the Jordanian industrial companies have audit committee members who are independent. Meanwhile, we found that few companies of the sample study, the audit committees in them; never met independence standard and those covered 28.7% of the companies.

Regarding the relationship between audit committee characteristics and conservatism, our hypothesis was that such a relationship was positive in the sense that an efficient audit committee could lead to an increase in conservatism. However, as can be seen from Table 3 our results do not show any relationship with statistical significance between audit committee characteristics and conservatism. This gives us a preliminary indication that a relationship between audit committee characteristics and conservatism either does not exist or it is statistically insignificant.

4.2. Testing of hypotheses and discussion of findings

The first sub-hypothesis aims to test the impact of the size of the audit committee on improvement of conservatism. The audit committee of a big size better monitors preparing financial reports and improving earnings quality (Lin and Yang, 2006). Size of the audit committee is positively related to the quality of financial reports (Hamdan and Mushtaha, 2011; Felo *et al.*, 2003). And also helps reduce cheating and forgery in financial statements (Huang, 2005). But our study did not find any influence for the audit committee size on improving level of accounting conservatism. The second sub-hypothesis tries to give an answer to whether the independence of members of the committee contributes to the competence which improves conservatism or not. The basic notion is that their independence and control of administrative work improve performance and earnings quality (Qaraqish, 2009) and reduce practices of earnings management (Saleh *et al.*, 2007;

To confirm the results, we used ratio of total accruals to gross profit ATP in the second model as dependent variable; as follows:

$$ATP_{i,t} = \beta_0 + \beta_1 ACSize_{i,t} + \beta_2 ACIndep_{i,t} + \beta_3 ACActivity_{i,t} + \beta_4 ACExper_{i,t} + \beta_5 ACOwner_{i,t} + \beta_6 Size_{i,t} + \beta_7 Leverage_{i,t} + \beta_8 Big5_{i,t} + \beta_9 CorpGov_{i,t} + \beta_{10} EAprof_{i,t} + \varepsilon_{i,t} \quad .... (2)$$

where:

$ATP_{i,t}$: is a continuous variable: dependent variable: accounting conservatism measured through total accruals to gross profit ratio for the company (i) in the year (t).

4. Discussion of Empirical Results

At the onset, we have to examine the validity of data for statistical analysis. For this purpose, we used the normal distribution test, and the Multicollinearity test, the Autocorrelation test, and the Homoskedasticity test. The validity of the study models representing the correlation between accounting conservatism and audit committee was secured. Thus, we can say that the study models in the equations numbered 1 and 2 are accurate. All the variables on the right side express non-random variables excluding the last one $\varepsilon_{i,1}$; $\varepsilon_{i,2}$ which is supposed to belong to the natural distribution with a zero average, and a fixed variance is expressed in σ^2_1; σ^2_2 .All these variables are independent. As for the variables ($BTM_{i,t}$; $ATP_{i,t}$) they are dependent in the four models and have the same probability random error $\varepsilon_{i,1}$; $\varepsilon_{i,2}$ with a variance of σ^2_1; σ^2_2 and the average is:

$$\beta_0 + \beta_1.\ell(ACSize_{i,t}) + \beta_2.\ell(ACIndep_{i,t}) + \beta_3.\ell(ACActivity_{i,t}) + \beta_4.\ell(ACExper_{i,t}) + \beta_5.\ell(ACOwner_{i,t}) + \beta_6.\ell(Size_{i,t}) + \beta_7.\ell(Leverage_{i,t}) + \beta_8.\ell(Big5_{i,t}) + \beta_9.\ell(CorpGov_{i,t}) + \beta_{10}.\ell(EAprof_{i,t}) + 0 \quad .... (3)$$

4.1. Descriptive statistics

Table 2 shows the descriptive statistics of the continuous variables and dichotomous. The two variables BTM and ATP reflect the level of accounting conservatism in the financial reports issued by Jordanian industrial companies. The two negative ratios refer to the accounting conservatism in the financial reports. In Table 2 Part A, we notice that the Mean of the two ratios is positive and that reflects the low level of conservatism in the financial reports of such companies. This result conforms too many results of previous studies that dealt with the level of conservatism in the financial reports of the Jordanian companies. We notice that the two variables "BTM and ATP" do not follow the normal distribution because the Skewness does not approach zero, and Kurtosis is far from 3. This emphasizes that the data of these two variables never reach the normal distribution.

Table 2 shows that the average of the committee size is three members, while the largest number of any committee is four. These results emphasize the knowledge and awareness of the management of companies in our sample that the audit committee should not be very big because that might lead to a decrease in the coordination and problem solutions, in addition to not being able to perform the duties perfectly (Martinez and Fuentes, 2007). As a result, the Jordanian corporations committed themselves to the minimal size the committee must have in compliance with the Jordanian rules of corporate governance and legislations. This is what the study of Mayalah (2008) came up with when conducting the study in a Jordanian environment. The audit committee of Jordanian industrial companies meets four times a year at the average. The highest number of meetings for the companies was five a year, and the least was three. This shows that Jordanian industrial companies abide by the governance laws regarding the number of meetings of the audit committee. It was found that 40% of the members of the study sample have financial experience with slight difference from one year to another. It was also noticed that audit members in some companies do not have any financial experience, while all members in some other companies have.

We can conclude that most of the Jordanian industrial companies abide by the rules of corporate governance with respect to the financial experience that minimally one of the members must have. This goes in line with the opinion that the experience one member has in corporate governance and financial reports preparation and knowledge in auditing most likely helps to understand the attitude of auditor and his evaluations in order to side with him when conflict emerges with company management (DeZoort and Salterio, 2001).

$CorpGov_{i,t}$: is a continuous variable: the corporate governance in the company (i) in the year (t).

$EAprof_{i,t}$: control variable, specialization of external auditor in the customer's industry. It is a dummy variable given (1) if the auditor is specialized in the customer's industry, or else given (0) for the company (i) in year (t).

$EATurn_{i,t}$: is dummy variable: external auditor turnover of the company (i) at the end of the year (t).

β_0: is the constant.

$\beta_{1..10}$: is the slope of the independent and controls variables.

$\varepsilon_{i,t}$: random error.

Table 1. The labels and measurement of the study variables

Variable	Label	Definition and Measurement
Independent variables: audit committee characteristics		
Audit Committee Size	ACSize	This was measured through number of members of that committee elected by board of directors.
Audit Committee Independence	ACIndep	The audit committee that totally comprises non-executive members is given (1), but if not all the members were non-executive, it is given (0).
Number of Audit Committee Meetings	ACActivity	This variable was measured through the number of annual meetings the committee holds.
Financial Experience of Audit Committee Members	ACExper	The proportion of financial experience of the audit committee measured by dividing the number of qualified members in accounting financial and banking management to all members.
Percentage of Common Stocks Owned by Audit Committee	ACOwner	This was measured through the percentage of ownership of the audit committee for company common stocks.
Dependent variables: accounting conservatism		
Book-to-Market Approach	BTM	Calculated by dividing book value on market value; the book value is calculated by dividing (total shareholders' equity minus preferred stocks) on the weighted-average number of shares outstanding, the market value is the closing price at the end of the year.
Ratio of total accruals to gross profit	ATP	Calculated by dividing total accruals on gross profit, The total accruals are calculated according to cash flow techniques as net income minus operating cash flow.
Control variables		
Company Size	Size	Natural log of total assets was used to measure company size.
Financial Leverage	Leverage	Calculated by dividing debts on total assets.
Big 5 Jordanian Audit Firms	Big5	Assigned (1) to refer to the companies whose financial reports are audited by such firms of the big size and the value (0) to refer to the companies whose financial statements are audited by small size ones.
Corporate Governance	CorpGov	Measured by percentage of stock owned by members of board of directors.
Auditor's Specialization in Customer's Industry	EAProf	Assigned 1 If the Auditor's Specialization in Customer's Industry; 0 otherwise.

of audit committee characteristics on the relevance of accounting information.

3. Research Design and Methodology

3.1. Sample selection

The period chosen for the study is six years, from 2004-2009. The sample was chosen from the total population of corporations listed on the Amman Stock Exchange during the full six-year sample period. The sample satisfied the following selection criteria:

a) Complete yearly share price and par value per share for the 2004-2009 sample periods.
b) Complete financial statements data for at least six years from 2004-2009 sample periods.
c) Availability of all necessary data of audit committee characteristics.
d) Never been merged or delisted through the period of the study.

The number of corporations that met the criteria was 50 industrial corporations (see Appendix).

3.2. Study hypothesis

The main hypothesis "there is no relation with statistical significance between the audit committee characteristics and the level of accounting conservatism in Jordanian industrial corporations listed in ASE".

This hypothesis generates sub-hypotheses which tackle the relation of every characteristic of the audit committee with the accounting conservatism:

H_{01}: Size of the audit committee has no relationship "with statistical significant" with the improvement of accounting conservatism.

H_{02}: Degree of independence of the audit committee has no relationship "with statistical significant" with the improvement of accounting conservatism.

H_{03}: The financial experience of members of the audit committee has no relationship "with statistical significant" with the improvement of accounting conservatism.

H_{04}: Number of meetings of the audit committee has no relationship "with statistical significant" with the improvement of accounting conservatism.

H_{05}: Ownership of stocks by members of the audit committee has no relationship "with statistical significant" with the improvement of accounting conservatism.

3.3. Measuring variables

The selection of variables is based on an examination of previous empirical studies (such as Baxter and Cotter, 2009). Table 1 shows the dependent variable, the independent variables, and the control variables employed for all estimated models of the study.

3.4. Study models development

The study developed two models to represent the impact of audit committee characteristics on conservatism. In the first regression model, the dependent variable "accounting conservatism" was measured by using BTM ratio; as follows:

$$BTM_{i,t} = \beta_0 + \beta_1 ACSize_{i,t} + \beta_2 ACIndep_{i,t} + \beta_3 ACActivity_{i,t} + \beta_4 ACExper_{i,t} + \beta_5 ACOwner_{i,t} + \beta_6 Size_{i,t} + \beta_7 Leverage_{i,t} + \beta_8 Big5_{i,t} + \beta_9 CorpGov_{i,t} + \beta_{10} EAprof_{i,t} + \varepsilon_{i,t} \quad \text{.........} (1)$$

where:

$BTM_{i,t}$: is a continuous variable: dependent variable: accounting conservatism measured through Book-to-Market ratio for the company (i) in the year (t).

$ACSize_{i,t}$: is a continuous variable: number of audit committee members for the company (i) in the year (t).

$ACIndep_{i,t}$: is a dummy variable, audit committee independence for the company (i) in the year (t).

$ACActivity_{i,t}$: is a continuous variable: number of audit committee meetings for the company (i) in the year (t).

$ACExper_{i,t}$: is a dummy variable, the financial experience of members of the audit committee for the company (i) in the year (t).

$ACOwner_{i,t}$: is a continuous variable: the percentage of common stocks owned by audit committee for the company (i) in the year (t).

$Size_{i,t}$: is a continuous variable: the company size for the company (i) in the year (t).

$FinLav_{i,t}$: is a continuous variable: financial leverage ratio of the company (i) in the year (t).

$Big5_{i,t}$: is a dummy variable: size of the audit firm audited the financial statements of the company (i) in the year (t).

independence members of the audit committee, in addition to the existence of a written evidence.

2.2. Accounting conservatism

Today, there is a great deal of skepticism regarding financial reports: Adherence to accounting conservatism became a distinguishing aspect for companies with reference to the transparency of their financial reports and a standard for classifying countries according to adherence to accounting principles (Hamdan, 2011) and conservatism which disclose the expected losses aside from the anticipated earnings, in addition to the lowest values of assets. Accounting conservatism implies using strict standards when declaring profits (LaFond and Roychowdhury, 2008). This should not lead to undervaluing of assets or income (IASB framework, paragraph 37). There are two types of conservatism: first, the conditional one which rapidly acknowledges economic losses. Second, the unconditional which reduces the values of net assets or reveals book values of the least ownership equity (Ball *et al.*, 2008) The significance of the conservatism principle was re-emphasized through issuing a group of standards which contains a lot of conservatism among which are the following: The issuance of the (FASB) of standards for Accounting for Contingencies (SFAS5) in 1975, Employer's Accounting For Pensions (FSAS87), in 1985, Accounting for the Impairment of Long-Lived Assets (SFAS121) in 1995, and the two International Standards (IAS 36) and (IAS 37) (Al-Sahli 2009). Some of the benefits of accounting conservatism of financial lists are: reducing opportunist motives for managers when disclosing optimistic results, increasing contracts control, and reducing court costs (Watts, 2003a, b; Ball and Shivakumar, 2005). The need for accounting conservatism is related to the increase of credibility in accounting information (Hellman, 2008), as conservatism of declaring good results of the company increases accounting credibility and the ability to predict the future.

The need for conservatism appeared together with the Agency Theory (Basu, 1997) to solve the problem that might emerge between managers and stockholders on the separation between management and ownership. Hamdan (2011) found that accounting conservatism contributes in improving the quality of financial reporting through an External Auditor for clean opinion. This study helps in establishing a relationship between the high level of accounting conservatism in Jordanian industrial companies and the improvement of the opinion of external auditor. As for the role of accounting conservatism in improving the efficiency of debt contracts, studies of the last period ascertained that accounting conservatism helped in improving the efficiency of the debt contracts by increasing the ability of accounting information to predict the future (Watts, 2003a; Ball and Shivakumar, 2005; Ball *et al.*, 2008). Accounting conservatism secures, for the debtors, more strict policies in declaring profits and consequently limits profit distribution as this provides the company with a better opportunity to meet its liabilities. But Gigler *et al.* (2009) see that accounting conservatism reduces the efficiency of debt contracts because it changes the content of accounting, thus, reducing the possibility of future prediction.

In search for the factors influencing the level of accounting conservatism, many studies considered the distinction between companies regarding accounting conservatism in their financial reports. Hamdan (2011) and Yaseen (2008) found out that banks are the most conservative in their accounting policies. But Al-Sahli (2009) disagreed with them as he found that the Banking Sector in Saudi Arabia was the least conservative in its accounting policies. As for the relationship between the size of company and accounting conservation. Hamdan (2011a) found that big companies adopt conservative accounting policies to avoid political costs, but Al-Sahli (2009) did not find any relationship between the size of the company and the degree of accounting conservatism. In contrary to what was expected, Hamdan (2011a) found that the low-debt companies were the most conservative in their accounting policies. Al-Sahli's (2009) study did not find any effect of debt size on accounting conservatism, but found that establishing Saudi Stock Exchange had an effect on accounting conservatism in financial reporting and that agreed with what the study of Labo and Zhou (2006) came up with. The demands of US securities to establish Exchange Commission helped in increasing accounting conservatism in financial reporting. The accounting conservatism also helps in Quality Disclosure (Paprocki and Stone, 2004; Yaseen, 2008). Accounting conservatism also plays a role in Earnings Quality, to be continuous (Penman and Zhang, 2002).

2.3. Current study contribution

This study differs from previous ones as it tries to provide additional evidence on the impact of audit committee characteristics on accounting conservatism in Jordanian environment which, to the best of our knowledge, was never studied previously. As a small market, Jordan's unique environment and context offer a good opportunity to assess the effect

of committee members, its size, frequency of meetings, in addition to the experience and knowledge which members of the committee have to monitor management behavior. The practices related to earnings management of the general Malaysian joint-stock companies, the conflict between managers and external auditors might exist due to the choice of alternative accounting procedures related to earnings management. Some of the most important findings of the study are: absolute independence among members of the audit committee reduces the practices of earnings management in the Malaysian companies, the companies whose members of audit committee are distinguished for experience, financial knowledge, professionalism, in addition to frequent meetings of the committee have less practices of earnings management when compared to other companies.

The study of Mazlina *et al.* (2006) tried to test the relation between characteristics of the audit committee and those of the internal audit committee to evaluate the contribution of internal auditors in auditing financial statements. It conducted that through designing and distributing a questionnaire to internal executive auditors in (76) general Malaysian companies listed in the financial market. The most important findings were: there was a positive relation between the internal auditors evaluation regarding their contribution in auditing financial statements and three audit committee characteristics: rate of independence of its members, knowledge, and experience which the members have in the fields of accounting, auditing, and reviewing programs of internal auditor, results showed that the most effective audit committees and good resources regulating internal auditing tend to be positively related to the evaluation of internal auditors in their contribution to external auditing. Sweiti (2006) endeavored to develop a model to consolidate the role of audit committees in Jordanian joint-stock companies for the purpose of strengthening the function and independence of external auditing which will eventually lead to improve audit quality and increase the credibility of the financial declared data which helps consolidate the trust of the financial society in such data. It distributed a questionnaire to a randomly selected sample of people representing general Jordanian joint-stock companies. The sample included general managers, financial managers, and directors of internal and external auditors in the year (2005). Some of the most important findings of study were: the recently formed audit committee in the general Jordanian join-stock ones does not have the necessary requirements needed to effectively play its role, the recently formed audit committees in the Jordanian corporations do not have any significant impact on the effectiveness and independence of the external audit. The study of Carcello and Neal (2000) focused on the relation between audit committee independence and disclosure quality. The two researchers used the external auditor report, size of audit committee and size of board of directors, as control variables. The most important findings of the study were: there was a significant positive relationship between the percentages of the independent members of the audit committee and the optimistic disclosure about the financial status of the company with regard to financial notes, administration discussion, and analysis. There was no statistical relationship between the size of both board of directors, audit committee and optimistic disclosure with regard to the status of financial notes and administrative discussions and analyses. There was a significant positive relationship between audit committee independence and financial reports quality. The study of Felo *et al.* (2003) on the relationship between audit committee characteristics "regarding: financial experience, independence, and committee size", and financial information quality, came up with the following findings: there is an adversely relationship between Independence of audit committee members and financial deviations, a positive relation exists between financial experience of audit committee members and the quality of published financial information, positive relation between sizes of audit committee and quality of financial information. Finally, the study of Al-Farah (2001) aimed at measuring how active are audit committees are in the Jordanian corporations from the viewpoint of directors of internal and external auditors. It also attempted to know the most important factors that help to consolidate efficiency of such committees from the point of view of members of the audit committees of the Jordanian companies. The study dealt with all the companies that have audit committees by the end of December (2000). The most important findings of the study were: the audit committees of Jordanian companies were active from the viewpoint of internal auditing, but never from the viewpoint of the external auditors. Some of the factors that consolidate the role of audit committees are: the financial or accounting background of one member of the audit committee,

Iselin (2006) found that audit committee stock ownership can influence the financial reporting quality.

In this study, we are going to analyze the composition and structure of audit committees of a sample of 50 Jordanian companies listed on the Amman Stock Exchange, and how they affect conservatism. Specifically, we focus on the size of the audit committee, degree of independence, financial experience of members, number of meetings, and ownership of stocks by members of the committee. Also, we will analyze whether the composition, size, level of scrutiny, expertise, and ability of audit committee members will influence reporting practices.

To test the effect of audit committee characteristics on the value relevance of accounting information, pooled regressions are run, taking selective constructs, followed by a regression of all factors combined. The study found that the audit committee characteristics examined are not significantly related to accounting conservatism excluding the financial experience of audit committee which has a positive relationship with conservatism.

The remainder of this paper presents firstly, background and literature review. Secondly, research design and outlined methodology, including sample selection, operationalization of variables, and regressions models. Thirdly, the results and findings are highlighted, and finally, the study concludes with potential limitations.

2. Literature Review

2.1. Audit committee characteristics

The concept of audit committees differ according to the goals, functions, and responsibilities assigned to them. Al-Thuneibat (2006) defined it as "the committee that is composed of non-executive directors in the establishment". The major goal behind forming the audit committee is to increase auditing quality and questioning of directors board. Arens *et al.* (2009) defines it as "a group of persons selected from members of the board of directors who are responsible for retaining independence of the auditor". Jordan tried to enact a group of legislations to support corporate governance, and one of them is the stock exchange law No. (76; 2002). That law obliges all Jordanian joint-stock companies to form an audit committee consisting of three non-executive members from the company's board of directors. The duties and responsibilities of such committee are determined by the instructions issued by the board which comply with article (46). It also secures banking law No. (28) 2000 which obliges all Jordanian banks to form audit committees. Articles No. (32) and (33) of this law determine responsibilities and duties. The instruction No. (1) 1998 issued by Amman Stock Exchange and requested all Jordanian joint-stock companies to form audit committees. Modern disclosure instructions were issued and were put into effect in the beginning of 2004. Article No. (15) Explained how to form the audit committee, determining its duties and responsibilities. The most recent concept of audit committees in Jordanian milieu was the one issued by Amman Stock Exchange "directory of governance rules of companies listed in Amman Stock Exchange 2008" which stipulates that the audit committee should consist of non-executive members of the board of directors who should not be less than three. Two of them at least should be independent members, and one of them chairs the committee. All members of the committee should be equipped with knowledge of financial and accounting affairs. Decisions of the committee are taken by absolute majority of members. It should also put down written procedures to regulate its duties and commitments with the approval of the board of directors. It has the right to ask for legal, financial, administrative or technical opinion from any external consultant.

Many studies were concerned with analyzing qualities of audit committee as one of the tools of corporate governance, with many influences like controlling earnings management or improving financial reports, and earnings quality. Hamdan and Mushtaha (2011) studied the relationship between the possibility of the company receiving an audit clean report, and the characteristics of the audit committee of the industrial Jordanian companies listed in ASE. The findings of their study showed a positive impact for the size of the audit committee members on the report of external auditor. They also showed a negative impact for stock ownership of members of audit committee on the report of the external auditor. At the same time, the independence of (executive and non-executive) members of the audit committee or the number of meetings had no impact on the opinion of the external auditor. Stewart and Munro (2007) focused on the results of frequent meetings of the audit committee. They found the following: The presence of audit committee, the number of its meetings, and the auditor's attendance for such meetings reduce audit risks.

As for the ability of the audit committee to control earnings management, the study of Saleh *et al.* (2007) tried to evaluate the role of some qualities of the audit committee with regard to independence

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The Impact of Audit Committee Characteristics on Accounting Conservatism: Additional Evidence from Jordan

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Abstract. This research investigates the impact of audit committee characteristics (audit committee size, independence, activity, financial expertise, and percentage of common stocks owned by audit committee) on improving accounting conservatism for a sample of 50 Jordanian industrial corporations listed in Amman Stock Exchange (ASE) during the period of 2004-2009. To achieve this goal, accounting conservatism was measured using two methods, Book-to-Market approach and ratio of total accruals to gross profit. By using Pooled Data Regression, the study found that the examined audit committee characteristics are not significantly related to accounting conservatism excluding the financial experience of audit committee members which has a positive relationship with conservatism.

1. Background and Nature of the Problem

Conservatism is a fundamental concept in financial accounting. Under accounting conservatism, losses should be incorporated into accounting earnings in a more timely manner. Watts (2003a) argues that accounting conservatism is "an efficient financial reporting mechanism that benefits users of the firm's financial statements".

Audit committees have been regarded as integral to quality financial reporting. Companies establish audit committees to improve quality of financial reporting practices and earnings (Ramsay, 2001). The basic functions of the audit committee are to oversee the financial reporting process, and to monitor managers' tendencies to manipulate earnings. Regulators, in recent years, have questioned the effectiveness of audit committees in ensuring that financial statements are fairly stated and are without earnings management.

As a result of the failure of many companies recently, Corporate Governance Reforms in many countries have empowered the role of the audit committee in the oversight of financial reporting (Sarbanes-Oxley Act, 2002; Smith, 2003). Theoretically, it should be expected that an effective audit committee with governance characteristics would promote accounting conservatism within the firm and moderate the use of accruals to manipulate earnings.

Previous studies showed mixed results regarding the effect of audit committee formation on conservatism and earning quality. Dhaliwal *et al.* (2010), and Kalbers and Fogarty (1993) reported an association between audit committee accounting expertise and accruals quality. Other studies such as Van der Zahn and Tower (2004) failed to find an association between the magnitude of earnings management and the audit committee's financial expertise among the independent directors. Other studies such as DeZoort *et al.* (2002) and Sharma and